

TRADE

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Trade deficit widens

India's trade deficit expanded to US\$ 20.1bn in Apr'22 from US\$ 18.5bn in Mar'22. While headwinds for exports have risen as the global growth outlook remains marred by concerns over monetary policy tightening, Russia-Ukraine war and China's Covid-19 situation. On the other hand, imports are likely to remain high amidst elevated commodity prices, specially oil. We thus expect India's trade deficit to widen further in FY23. We expect CAD at 2.5% of GDP. This will put further pressure on INR.

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Exports grow at a healthy pace: India's exports rose by 30.7% in Apr'22, compared with 19.8% in Mar'22 on a YoY basis. This was led by a pickup in both oil (127.5% versus 115.4% in Mar'22) and non-oil (17.7% in Apr'22 versus 8.9% in Mar'22) exports. Within non-oil exports, exports of engineering goods witnessed an improvement to 22% in Apr'22 from 17% in Mr'22. Other items such as drugs and pharmaceuticals (9.5% in Apr'22 versus 4.2% in Mar'22), organic and inorganic chemicals (32.3% in Apr'22 from 22% in Mar'22) also accelerated. Exports of agricultural products increased by 4.2% in Apr'22, after declining by 3% in Mar'22. On the other hand, exports of gems and jewellery (2.6% in Apr'22 from 4.6% in Mar'22) and textiles (13.8% in Apr'22 from 19.5% in Mar'22) decelerated.

Imports too accelerate: Import growth also accelerated to 31% in Apr'22 from 24.2% in Mar'22. This was led by an increase in oil imports to 87.5% in Apr'22 from 83% in Mar'22. Even gold imports declined at a slower pace of 72.4% in Apr'22 compared with a decline of 87.7% in Mar'22. Reflecting the impact of higher commodity prices, India's imports rose to a fresh record-high of US\$ 60.7bn in Mar'22 from US\$ 55.4bn in Feb'22. On the other hand, non-oil-non-gold imports lost some momentum and rose by 32.2% in Apr'22 compared with 35.7% in Mar'22. While import of vegetable oils and coal decelerated on a YoY basis, it continues to remain elevated amidst high domestic demand. Vegetable oil imports rose by 35.5% (61.1% in Mar'22) and coal imports rose by 146.3% (164.7%). Other categories showing a marked decline were: pearls and precious stones (5% in Apr'22 from 34.6% in Mar'22), electronic goods (32.9% in Apr'22 from 45.5% in Mar'22) and agriculture products (33.6% in Apr'22 from 56.4% in Mar'22). Capital goods imports declined for the third-straight month albeit at a slower pace of 0.1% compared with a decline of 3.2% in Mar'22. Within this, imports of transport equipment declined sharply by 21.2% in Apr'22 versus a decline of 8.1% in Mar'22. On the other hand, imports of machinery and project goods showed improvement.

Trade deficit widens again: India's trade deficit widened to US\$ 20.1bn in Apr'22 from US\$ 18.5bn in Mar'22. Sequentially while exports dipped by US\$ 2bn, imports remained steady, leading to the widening of trade deficit. Non-oil exports declined. While export growth remained buoyant in FY22, possible slowdown in global growth remains a key headwind for exports going forward. On the other hand, Overall, we expect India's trade deficit at ~US\$ 240bn in FY23 (7.1% of GDP) compared with US\$ 194.3bn in FY22 (6.1% of GDP). Higher receipts on account of services exports and remittances will offer some support. Even so, CAD is likely to expand to 2.5% of GDP in FY23 from xx% of GDP in FY22. This is likely to put further pressure on INR.



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